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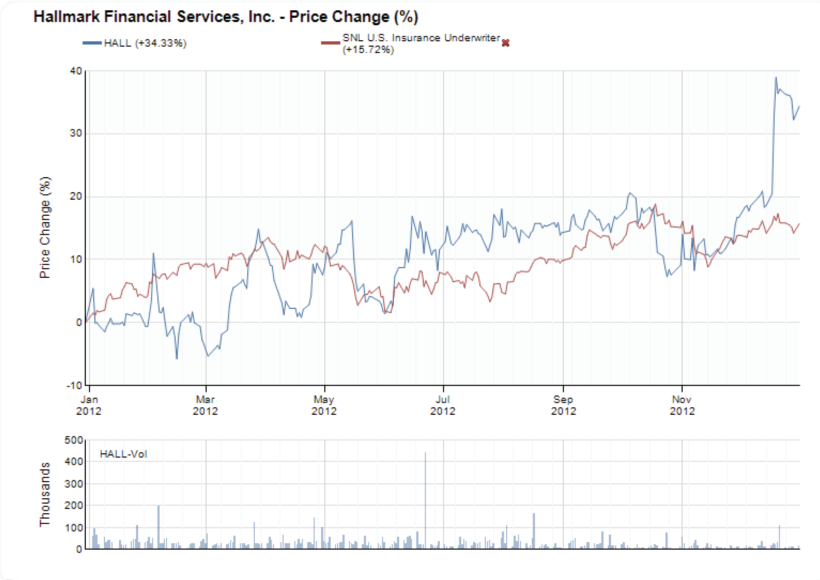
HALLMARK FINANCIAL SERVICES, INC.

# 4th Quarter & Fiscal Year 2012 Highlights

## Summary

*As of December 31, 2012:*

- Fourth quarter 2012 net income was $1.8 million, or $0.09 per share, compared to net income of $0.3 million, or $0.02 per share reported for fourth quarter 2011.
- Net income was $3.5 million, or $0.18 per share, for fiscal 2012 as compared to a net loss of $10.9 million, or $0.55 per share reported for fiscal 2011.
- Total revenues were $88.6 million for the fourth quarter 2012 as compared to $83.1 million for the fourth quarter of 2011.
- Fiscal 2012 total revenues were $341.8 million, up 6% from the $322.8 million reported for fiscal 2011.




| **4th Quarter** *December 31, 2012* | **2012** | **2011** | **% +/-** |
|---|---|---|---|
| | *($ in thousands, unaudited)* | | |
| Gross premiums written | 92,184 | 84,047 | 10% |
| Net premiums written | 77,385 | 70,804 | 9% |
| Net premiums earned | 83,498 | 76,282 | 9% |
| Investment income, net of expenses | 3,720 | 4,115 | (10%) |
| Net realized gains | 89 | 456 | (80%) |
| Total revenues | 88,623 | 83,102 | 7% |
| Net income (1) | 1,783 | 311 | 473% |
| Net income per share - basic | $ 0.09 | $ 0.02 | 350% |
| Net income per share - diluted | $ 0.09 | $ 0.02 | 350% |
| Book value per share | $ 11.45 | $ 11.19 | 2% |
| Cash flow from operations | $ 5,495 | $ 9,602 | (43%) |
| Net loss ratio | 68.9% | 75.2% | (6.3%) |
| Net expense ratio | 30.2% | 29.3% | 0.9% |
| Net combined ratio | 99.1% | 104.5% | (5.4%) |

| **Fiscal Year** *December 31, 2012* | **2012** | **2011** | **% +/(-)** |
|---|---|---|---|
| | *($ in thousands)* | | |
| Gross premiums written | 389,842 | 354,881 | 10% |
| Net premiums written | 332,489 | 303,876 | 9% |
| Net premiums earned | 319,436 | 293,041 | 9% |
| Investment income, net of expenses | 15,293 | 15,880 | (4%) |
| Net realized gains | 1,943 | 3,633 | (47%) |
| Total revenues | 341,800 | 322,771 | 6% |
| Net income (loss)(1) | 3,524 | (10,891) | NM |
| Net income (loss) per share - basic | $ 0.18 | $ (0.55) | NM |
| Net income (loss) per share - diluted | $ 0.18 | $ (0.55) | NM |
| Book value per share | $ 11.45 | $ 11.19 | 2% |
| Cash flow from operations | $ 33,682 | $24,610 | 37% |
| Net loss ratio | 70.9% | 81.6% | (10.7%) |
| Net expense ratio | 30.8% | 30.8 % | 0.0% |
| Net combined ratio | 101.7% | 112.4% | (10.7%) |

*(1) Net income (loss) is net income (loss) attributable to Hallmark Financial Services, Inc. as reported in the consolidated statements of operations as determined in accordance with GAAP.*

## From Mark Morrison, President and CEO

"The positive results for the quarter continue to reflect improvement in underwriting profitability due to the decisive actions taken over the past year, including a continuation of meaningful rate increases across most all business units and exiting unprofitable states and product lines in our Personal Segment. Our fourth quarter combined ratio of 99.1% and earnings of $0.09 per share evidence this improvement and reflect the favorable underlying trends within our business.

The year-over-year increase in revenue continues to be largely driven by organic growth from the operating units that comprise our Specialty Commercial Segment. We have seen an increase in premium production generated from favorable rate trends, as well as from added insured exposure units that suggests improving economic conditions in the markets in which we operate. We continue to see middle single-digit to low double-digit rate increases across all operations with the exception of General Aviation, which continues to be impacted by increased competition in a contracting market. We expect these trends to continue throughout 2013 as we continue to closely monitor pricing and pursue rate increases in most all of our lines of business."

## From Mark Schwarz, Executive Chairman and Director

"Book value per share was $11.45 at the end of the year, an increase of 2% over prior year. Cash flow from operations was $5.5 million in the fourth quarter and $33.7 million for fiscal 2012, up from $24.6 million in the prior year. Total cash and investments increased 6% during fiscal 2012 to $539.2 million, or $27.99 per share.

Despite holding a greater amount of fixed income securities during 2012, net investment income was nearly $0.6 million less than prior year due to a 70 basis point decline in tax equivalent book yield to 4.4%. Hallmark continues to carry significant cash of $93.9 million as of December 31, 2012, which we seek to opportunistically deploy in ways that will generate a higher return for shareholders in the future."

## Fiscal Year 2012 Commentary

During fiscal 2012, total revenues were $341.8 million, representing an approximately 6% increase over the $322.8 million in total revenues for fiscal 2011. The growth in revenue was primarily attributable to increased premium production and resulting earned premium driven largely from the E&S Commercial business unit and from the acquisition of the Workers Compensation business unit during the third quarter of 2011. The increase in revenue was partially offset by an adverse profit share commission revenue adjustment in the Standard Commercial P&C business unit, combined with lower finance charges and earned premium in the Personal Segment due mostly to the impact of a reduction of premium written in underperforming states and products exited over the past twelve months. Further offsetting the increase in revenue was lower net realized gains for the period ended December 31, 2012.

Net income attributable to Hallmark was $3.5 million for the year ended December 31, 2012, as compared to a net loss of $10.9 million for the year ended December 31, 2011. On a diluted per share basis, net income attributable to Hallmark was $0.18 per share for fiscal 2012 as compared to a net loss of $0.55 per share for fiscal 2011.

The increase in revenue for the year ended December 31, 2012 was complemented by decreased loss and loss adjustment expenses due primarily to improved current accident year loss trends in the Standard Commercial P&C business unit and Personal Lines business unit as well as $3.7 million of favorable prior year loss development for the year ended December 31, 2012 as compared to $16.4 million of adverse reserve development recognized during the prior year. Of the $16.4 million unfavorable development recognized for the year ended December 31, 2011, $10.3 million was a result of adverse prior year loss reserve development in the Personal Segment in Florida. In addition, the results for the years ended December 31, 2012 and 2011 included $11.7 million and $10.3 million, respectively, in current accident year net losses from weather related claims.

Hallmark's consolidated net loss ratio was 68.9% and 70.9% for the three and twelve months ended December 31, 2012 as compared to 75.2% and 81.6% for the same periods in 2011. Hallmark's net expense ratio was 30.2% and 30.8% for the three and twelve months ended December 31, 2012 as compared to 29.3% and 30.8% for the same periods in 2011. Hallmark's net combined ratio was 99.1% and 101.7% for the three and twelve months ended December 31, 2012 as compared to 104.5% and 112.4% for the same periods in 2011.